

2010 Annual Report



**Farm Credit Services of
North Dakota, ACA**

TABLE OF CONTENTS

Farm Credit Services of North Dakota, ACA

Message from the Chief Executive Officer	1
Consolidated Five-Year Summary of Selected Financial Data	2
Management's Discussion and Analysis	3
Report of Management	8
Report of Audit Committee	9
Report of Independent Auditors	10
Consolidated Financial Statements	11
Notes to Consolidated Financial Statements	15
Disclosure Information Required by Regulations	24

AgriBank, FCB's financial condition and results of operations materially affect members' investment in Farm Credit Services of North Dakota, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at Post Office Box 70, Minot, North Dakota 58702-0070, (701) 852-1265 or via electronic mail to info@farmcreditnd.com or through our website at www.farmcreditnd.com. You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to agribankmn@agribank.com. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Dear Farm Credit Customer:

The farm economy in northwest North Dakota was very good in 2010. Excellent crop conditions resulted in above-average yields in most parts of our region. There were some areas of excessive moisture which caused delays and, in some cases, prevented planting. Grain prices rebounded well in late 2010 which should result in good profits for the farmer. Optimism is somewhat subdued due to farm expenses increasing rapidly.

Similar to agriculture in our region, Farm Credit's business results in 2010 were very positive. We continued to build capital (16.69% permanent capital ratio) while increasing our gross loan volume from \$619M to \$690M. Increases in loan volume mainly came from traditional sources which include farmers and ranchers in northwest North Dakota. Credit quality remained very strong at 98.76%.

Farm Credit Services of North Dakota is proud to offer low rates to our farmers and ranchers while continuing to provide adequate earnings to support the growth rate experienced in 2010. The Pat-NOW Philosophy is working well and is a significant contribution to our growth and success.

Sincerely,

A handwritten signature in black ink, appearing to read "Claude Sem".

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

March 1, 2011

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

	2010	2009	2008	2007	2006
Statement of Condition Data					
Loans	\$690,368	\$619,115	\$554,556	\$447,792	\$410,913
Allowance for loan losses	1,645	1,227	1,433	1,216	1,277
Net loans	688,723	617,888	553,123	446,576	409,636
Investment in AgriBank, FCB	13,898	13,046	11,570	9,194	9,109
Investment securities	1,447	5,439	7,674	--	--
Other property owned	--	10	246	--	--
Other assets	16,616	15,964	16,680	17,156	19,051
Total assets	\$720,684	\$652,347	\$589,293	\$472,926	\$437,796
Obligations with maturities of one year or less	\$581,368	\$527,236	\$475,588	\$370,746	\$342,542
Total liabilities	581,368	527,236	475,588	370,746	342,542
Protected members' equity	2	2	4	11	12
Capital stock and participation certificates	2,216	2,163	2,073	2,002	2,067
Unallocated surplus	137,098	122,946	111,628	100,167	93,175
Total members' equity	139,316	125,111	113,705	102,180	95,254
Total liabilities and members' equity	\$720,684	\$652,347	\$589,293	\$472,926	\$437,796
Statement of Income Data					
Net interest income	\$18,206	\$15,698	\$11,470	\$10,108	\$9,041
Provision for (reversal of) loan losses	526	110	290	(67)	142
Patronage income	2,193	1,455	1,115	1,220	1,107
Other expense, net	4,395	5,014	688	4,071	4,664
Provision for income taxes	1,326	711	146	332	83
Net income	\$14,152	\$11,318	\$11,461	\$6,992	\$5,259
Key Financial Ratios					
Return on average assets	2.2%	1.9%	2.2%	1.5%	1.2%
Return on average members' equity	10.7%	9.5%	10.7%	7.1%	5.7%
Net interest income as a percentage of average earning assets	2.9%	2.7%	2.3%	2.4%	2.3%
Members' equity as a percentage of assets	19.3%	19.2%	19.3%	21.6%	21.8%
Net chargeoffs as a percentage of average loans	--	0.1%	--	--	--
Allowance for loan losses as a percentage of loans	0.2%	0.2%	0.3%	0.3%	0.3%
Permanent capital ratio	16.7%	16.4%	16.8%	18.8%	18.7%
Total surplus ratio	16.4%	16.0%	16.5%	18.4%	18.3%
Core surplus ratio	16.4%	16.0%	16.5%	18.4%	18.2%

No income was distributed to members in the form of cash, dividends, stock or allocated surplus during the five years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of North Dakota, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of North Dakota, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

Forward-Looking Information

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "could", "estimate", "may", "should", "will", "expect", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties; many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad,
- fluctuations in the agricultural, energy, financing, and leasing sectors,
- economic conditions and credit performance of our loan portfolio, portfolio growth and seasonal factors,
- changes in our estimates underlying the allowance for loan losses,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$690.4 million at December 31, 2010. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	2010 vs. 2009		2009 vs. 2008	
Accrual				
Mortgage	\$37,431	9.9%	\$31,001	8.9%
Commercial	34,962	14.7%	36,517	18.2%
Nonaccrual	(1,140)	(64.3%)	(2,959)	(62.5%)
Total loans	<u>\$71,253</u>	11.5%	<u>\$64,559</u>	11.6%

The change in loan volume as compared to prior year is the result of loans to an increased number of new customers as well as continued cross-sell to our existing customers. Participation loan volume also increased. Mineral activity continues to accelerate repayment in the western part of our territory. An increased amount and number of real estate sales did have an impact on mortgage loan volume. Demand for machinery remains strong which also influenced growth in loan volume.

Portfolio Distribution

We are chartered to serve certain counties in North Dakota, as listed in Note 1 in the accompanying consolidated financial statements. Approximately 30.5% of our total loan portfolio was in the counties of McHenry, McLean, Ward and Wells at December 31, 2010.

Our portfolio is heavily concentrated in cash grain operations representing approximately 62.3% of the total portfolio. The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

Agricultural and Economic Conditions

As of November, 2010, the United States Department of Agriculture (USDA) forecasted net farm income for 2010 at \$81.6 billion, an increase from \$62.2 billion recorded in 2009. The forecasted \$19.4 billion increase comes from higher meat, dairy, and crop margins, which had earlier been expected to be flat in 2010. Net cash income, a better indicator of ability to repay loans, is forecasted to be a record \$92.5 billion, 2.3% higher than the previous record set in 2008.

Yields across our territory in 2010 were generally very good and commodity prices were strong resulting in a profitable year for most of our borrowers. Moisture conditions going into the 2011 spring planting season are good to excess across most of our territory and there may be some challenges with spring planting even with normal snowfall. Prices for commodities are projected to remain strong with some indications of downward pressure for cattle prices and dairy given the relatively high cost of feed. There could be upward pressure on inputs given the increasing price of oil which will drive up prices on fuel, fertilizer and chemicals. The local economy is strong given good ag profits plus an expanding oil industry in the territory giving good off-farm employment opportunities if desired. Overall, credit quality remains strong. Land values remain stable to increasing with strong demand for available land.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	2010	2009	2008
Loans:			
Accruing restructured	\$695	\$804	\$932
Past due 90 days or more still accruing	1	38	492
Nonaccrual	634	1,774	4,733
Total risk loans	<u>1,330</u>	2,616	6,157
Other property owned	--	10	246
Total risk assets	<u>\$1,330</u>	<u>\$2,626</u>	<u>\$6,403</u>
Risk loans			
as a percentage of total loans	0.2%	0.4%	1.1%
Total delinquencies			
as a percentage of total loans	0.2%	0.4%	0.4%

Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in nonaccrual loans from 2009 was primarily due to the payoff of one account. Total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at December 31, 2010, and represented 0.1% of our total portfolio. At December 31, 2010, 8.0% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2010. Adversely classified assets decreased from 1.3% of the portfolio at December 31, 2009, to 1.2% of the portfolio at December 31, 2010. Adversely classified assets are assets identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2010, \$36.5 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	2010	2009	2008
Allowance as a percentage of:			
Loans	0.2%	0.2%	0.3%
Nonaccrual loans	259.5%	69.2%	30.3%
Total risk loans	123.7%	46.9%	23.3%
Net chargeoffs as a percentage of average loans	--	0.1%	--
Adverse assets to risk funds	6.8%	7.1%	9.0%

The increase in ratios representing the allowance as a percentage of nonaccrual loans and as a percentage of total risk loans as compared to the prior year is primarily due to the decrease in total risk loans as discussed in the analysis of risk section. In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2010.

Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products.

The demographics of the young, beginning and small farmers in our territory were compiled from the 2007 USDA Ag-Census. At the time of the

census there were 9,983 farmers in Farm Credit Services of North Dakota, ACA's territory which was an increase of 2.9% from the 2002 USDA Ag-Census. There were 7,237 small farmers in our territory. This was 18.2% less than the 2002 Ag-Census. There were 1,791 beginning farmers which was 0.3% less than the 2002 Ag-Census. Young farmers had a 5.8% increase from the 2002 Ag-Census with 771 in our territory.

Our mission statement for the Young, Beginning and Small Farmers program is "to assist young, beginning and small farmers and ranchers to succeed in business in their agricultural environment." The specific means to meet the objective of this mission statement follows:

- Our volume goal for young farmers is \$139.8 million which is 110% of risk funds. At December 31, 2010, we had \$137.8 million in loans to young farmers which was 108% of risk funds.
- Our volume goal for beginning farmers is \$127.1 million which is 100% of risk funds. At December 31, 2010, we had \$123.0 million in loans to beginning farmers which was 97% of risk funds.
- Our volume goal for small farmers is \$508.2 million which is 400% of risk funds. At December 31, 2010, we had \$192.6 million in loan volume to small farmers which was 152% of risk funds.
- Our goal for the number of loans is 1,363 of loans to young farmers, 1,279 of loans to beginning farmers and 7,724 of loans to small farmers. At December 31, 2010, we had 1,353 loans to young farmers, 1,246 loans to beginning farmers and 2,944 loans to small farmers.

We also have the opportunity to coordinate with the Bank of North Dakota and the Farm Service Agency in originating new loans. Our goal through coordinating with these two entities was to make 10 new loans to young farmers for \$500 thousand in loan volume, 10 new loans to beginning farmers for \$500 thousand in loan volume and 25 new loans to small farmers for \$1.25 million in loan volume. With this coordination effort in 2010, we made 6 loans to young farmers for \$1.7 million, 2 loans to beginning farmers for \$340 thousand and 8 loans to small farmers for \$1.3 million.

We also provide related services to this segment of our portfolio with a goal of continued growth equal to or greater than what our overall related services are growing. To date, the numbers of farmers served with certain services include:

	Young	Beginning	Small
Hail Insurance	106	88	199
Multi-Peril Insurance	103	122	237
Life Insurance	76	63	208

We also have a plan for marketing and outreach activities for this segment of our territory. We had goals of distributing 750 FFA Handbooks to 35 schools and actually gave 626 Handbooks to 35 schools. Our goal was to attend 6 FFA banquets and 4 were attended. We planned to attend 6 FFA Alumni Meetings and 8 were attended. We had a goal of attending 12 4-H premium sales with 13 attended. We have participated with the other Farm Credit System associations in North Dakota in granting 4 innovative grants for a total of \$2 thousand. We planned for and awarded four \$500 scholarships to sons and daughters of the agriculture community. We had planned presentations to 5 agriculture classes with 2 presentations completed. We had a goal of attending 10 Adult Farm Management events with 7 attended. We had a goal of attending 30 marketing club meetings with none attended. Our goal was to participate in 8 agriculture shows with 11 completed. We had a goal of 2 and completed 2 direct mailings to young, beginning and small farmers in our area. We had a goal of staff to attend 100 key community agriculture events in our territory and 305 were attended. We had a goal of facilitating 2 college funding seminars with 1 completed. We also had a goal to participate in 6 kid's farm safety events with 6 completed.

Our website has a page dedicated to our Young, Beginning and Small Farmers program along with information sent in our customer newsletter targeted at the Young, Beginning and Small Farmers segment of our territory.

Our specifically designed credit programs and services for young, beginning and small farmers include underwriting standards and use of guarantees or other credit enhancements to ensure the program is conducted in a manner that protects the safety and soundness of the association.

Additional Loan Information

Additional loan information is included in Notes 3, 12, 13 and 14.

Investment Securities

In addition to loans, we hold investment securities. Investments represent our share of investment notes in a trust of equipment loans. These were purchased through our participation in the FCS Commercial Finance Group (CFG). Investment securities totaled \$1.4 million at December 31, 2010, \$5.4 million at December 31, 2009 and \$7.7 million at December 31, 2008.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

Additional investment securities information is included in Note 3.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2010	2009	2008
Net income	\$14,152	\$11,318	\$11,461
Return on average assets	2.2%	1.9%	2.2%
Return on average members' equity	10.7%	9.5%	10.7%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio section, and
- changes in members' equity discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

	2010 vs. 2009	2009 vs. 2008
Increase (decrease) in net income		
Net interest income	\$2,508	\$4,228
Provision for loan losses	(416)	180
Patronage income	738	340
Other income, net	830	(3,467)
Operating expenses	(211)	(859)
Provision for income taxes	(615)	(565)
Total change in net income	\$2,834	(\$143)

Net Interest Income

Net interest income was \$18.2 million for the year ended December 31, 2010. The following table quantifies changes in net interest income (in thousands):

	2010 vs. 2009	2009 vs. 2008
Changes in net interest income due to:		
Changes in volume	\$1,500	\$1,415
Changes in rates	1,137	2,765
Changes in nonaccrual income and other	(129)	48
Net change	\$2,508	\$4,228

Net interest income included income on nonaccrual loans that totaled \$79 thousand in 2010, \$118 thousand in 2009, and \$127 thousand in 2008. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior chargeoffs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.9% in 2010, 2.7% in 2009 and 2.3% in 2008.

Provision for Loan Losses

The variance in the provision for loan losses is related to an increase in our estimate of losses in our portfolio. The prior year provision for loan losses was reduced by the impact of the transfer of certain ethanol loans to other property owned during the second quarter of 2009, of which substantially all were subsequently sold during 2009.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$2.2 million in 2010, \$1.4 million in 2009, and \$1.1 million in 2008. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 42 basis points in 2010, 30 basis points in 2009, and 27 basis points in 2008.

We received another component of patronage, referred to as equalization income, from AgriBank. We earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. Equalization income totaled \$1 thousand for 2010, \$1 thousand for 2009 and \$7 thousand for 2008.

We also received patronage from CoBank, ACB. This patronage income totaled \$6 thousand in 2010, \$6 thousand in 2009 and \$3 thousand in 2008.

Other Income, Net

The increase in other income, net is primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of \$597 thousand. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2010	2009	2008
Salaries and benefits	\$7,501	\$6,608	\$6,015
Purchased and vendor services	684	693	631
Communications	131	119	125
Occupancy and equipment	609	578	614
Advertising and promotion	398	404	408
Examination	233	197	188
Farm Credit System insurance	251	1,017	702
Other	1,111	1,091	1,165
Total	\$10,918	\$10,707	\$9,848
Operating rate	1.7%	1.8%	2.0%

The operating expense increases, as compared to last year, were primarily related to increased salary and benefit costs partially offset by a decrease in Farm Credit System Insurance expense.

Provision for Income Taxes

We recorded tax expense of \$1.3 million for the year ended December 31, 2010, compared to \$711 thousand for 2009, and \$146 thousand for 2008. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2010, our average balance was \$520.5 million with an average interest rate of 1.4%. Our average balance during 2009 was \$483.0 million with an average interest rate of 1.5% and during 2008 our average balance was \$409.5 million with an average interest rate of 3.2%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2010, we had \$148.0 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loans and fixed rate lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our interest rate risk.

Capital Adequacy

Total members' equity increased \$14.2 million during 2010 due to net income for the period and an increase in capital stock and participation certificates outstanding.

Members' equity position information is as follows (in thousands):

As of December 31	2010	2009	2008
Members' equity	\$139,316	\$125,111	\$113,705
Surplus as a percentage of members' equity	98.4%	98.3%	98.2%
Permanent capital ratio	16.7%	16.4%	16.8%
Total surplus ratio	16.4%	16.0%	16.5%
Core surplus ratio	16.4%	16.0%	16.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2010, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2010, our optimum permanent capital target range was 20% to 22%

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

FCS Commercial Finance Group

We participate in the FCS Commercial Finance Group (CFG) alliance with certain other associations in Minnesota and North Dakota to meet the financial needs of agricultural producers and agribusiness operations. The CFG is directed by representatives from each participating association. The income, expense and loss sharing arrangements are based on each association's participation interest of the CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had \$120.2 million of CFG volume at December 31, 2010, \$113.9 million at December 31, 2009, and \$114.2 million at December 31, 2008. We also had \$91.4 million of available commitment on CFG loans at December 31, 2010.

ProPartners Financial

We participate in the ProPartners Financial (ProPartners) alliance with certain other associations in North Dakota, Minnesota, Illinois, Wisconsin, and Michigan. ProPartners provides financing programs for clients of agribusiness companies. ProPartners is directed by representatives from the participating associations. The income, expense and loss sharing arrangements are based on each association's participation interest of ProPartners volume. Each association's allocation is established according to a prescribed formula. We had \$19.1 million of ProPartners volume at December 31, 2010, \$21.5 million at December 31, 2009, and \$20.7 million at December 31, 2008.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit

opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Investments for Rural America Pilot Program

We are participating in an Investments for Rural America pilot program authorized during 2006 by the Farm Credit Administration in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had \$64 thousand of volume under this pilot program outstanding at December 31, 2010, \$93 thousand at December 31, 2009, and \$120 thousand at December 31, 2008.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a spread component, which includes cost of servicing, cost of liquidity and bank profit, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. In 2010, an additional 2.1 basis points was added to the spread component related to the cost of AgriBank's liquidity plan. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2010, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4%.

At December 31, 2010, \$10.3 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and \$3.6 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank, and
- equalization income based on our excess stock or growth required stock investment in AgriBank.

Beginning in 2009, patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- information systems,
- financial services,
- accounting and reporting services,
- human resource services, and
- retail product processing and support.

The total cost of services we purchased from AgriBank was \$504 thousand in 2010, \$488 thousand in 2009, and \$484 thousand in 2008.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the AgriBank and the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at Post Office Box 70, Minot, North Dakota 58702-0070, (701) 852-1265 or via electronic mail to info@farmcreditnd.com or through our website at www.farmcreditnd.com or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to agribankmn@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB which involves purchasing or selling participation interests in loans. As part of this relationship, at December 31, 2010, we had an equity investment in CoBank, ACB of \$7 thousand. CoBank, ACB provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

Insight Technology Unit

We participate in the Insight Technology Unit with certain other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared prorata based on the number of loans and leases of each participant.

REPORT OF MANAGEMENT

Farm Credit Services of North Dakota, ACA



We prepare the consolidated financial statements of Farm Credit Services of North Dakota, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of Farm Credit Services of North Dakota, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of Farm Credit Services of North Dakota, ACA.

The undersigned certify we have reviewed Farm Credit Services of North Dakota, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Rollin Tonneson
Chairperson of the Board
Farm Credit Services of North Dakota, ACA

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

Kent Huss
Chief Financial Officer
Farm Credit Services of North Dakota, ACA

March 1, 2011

REPORT OF AUDIT COMMITTEE

Farm Credit Services of North Dakota, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Services of North Dakota, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2010, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2010.



Daryl Klein
Chairperson of the Audit Committee
Farm Credit Services of North Dakota, ACA

Members of the Audit Committee are:

Daryl Klein
Bryan Ankenbauer
Phil Lowe
Clara Sue Price
Rollin Tonneson

March 1, 2011



Report of Independent Auditors

To the Board of Directors and Members of
Farm Credit Services of North Dakota, ACA

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Services of North Dakota, ACA (the Association) and its subsidiaries at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 1, 2011

*PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us*

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

As of December 31	2010	2009	2008
ASSETS			
Loans	\$690,368	\$619,115	\$554,556
Allowance for loan losses	1,645	1,227	1,433
Net loans	688,723	617,888	553,123
Investment in AgriBank, FCB	13,898	13,046	11,570
Investment securities	1,447	5,439	7,674
Accrued interest receivable	10,190	9,558	9,784
Premises and equipment, net	1,954	1,897	1,990
Other property owned	--	10	246
Assets held for lease, net	1,854	2,233	2,104
Other assets	2,618	2,276	2,802
Total assets	\$720,684	\$652,347	\$589,293
LIABILITIES			
Note payable to AgriBank, FCB	\$576,288	\$521,645	\$469,319
Accrued interest payable	1,820	1,862	3,275
Net deferred income tax liability	670	740	842
Other liabilities	2,590	2,989	2,152
Total liabilities	581,368	527,236	475,588
Contingencies and commitments	--	--	--
MEMBERS' EQUITY			
Protected members' equity	2	2	4
Capital stock and participation certificates	2,216	2,163	2,073
Unallocated surplus	137,098	122,946	111,628
Total members' equity	139,316	125,111	113,705
Total liabilities and members' equity	\$720,684	\$652,347	\$589,293

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

Year ended December 31	2010	2009	2008
Interest income	\$25,487	\$23,183	\$24,572
Interest expense	7,281	7,485	13,102
Net interest income	18,206	15,698	11,470
Provision for loan losses	526	110	290
Net interest income after provision for loan losses	17,680	15,588	11,180
Other income			
Patronage income	2,193	1,455	1,115
Financially related services income	5,080	5,069	8,692
Fee income	498	353	242
Allocated insurance reserve account distribution	597	--	--
Miscellaneous income, net	348	271	226
Total other income	8,716	7,148	10,275
Operating expense			
Salaries and employee benefits	7,501	6,608	6,015
Other operating expense	3,417	4,099	3,833
Total operating expense	10,918	10,707	9,848
Income before income taxes	15,478	12,029	11,607
Provision for income taxes	1,326	711	146
Net income	\$14,152	\$11,318	\$11,461

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2007	\$11	\$2,002	\$100,167	\$102,180
Net income	--	--	11,461	11,461
Capital stock/participation certificates issued	--	429	--	429
Capital stock/participation certificates retired	(7)	(358)	--	(365)
Balance at December 31, 2008	4	2,073	111,628	113,705
Net income	--	--	11,318	11,318
Capital stock/participation certificates issued	--	402	--	402
Capital stock/participation certificates retired	(2)	(312)	--	(314)
Balance at December 31, 2009	2	2,163	122,946	125,111
Net income	--	--	14,152	14,152
Capital stock/participation certificates issued	--	356	--	356
Capital stock/participation certificates retired	--	(303)	--	(303)
Balance at December 31, 2010	\$2	\$2,216	\$137,098	\$139,316

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Services of North Dakota, ACA

(Dollars in thousands)

Year ended December 31	2010	2009	2008
Cash flows from operating activities			
Net income	\$14,152	\$11,318	\$11,461
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	162	184	195
Depreciation on assets held for lease	478	470	432
Provision for loan losses	526	110	290
Stock patronage received from AgriBank, FCB	(792)	(353)	--
(Increase) decrease in accrued interest receivable	(916)	61	1,509
(Increase) decrease in other assets	(342)	526	(474)
Decrease in accrued interest payable	(42)	(1,413)	(1,374)
(Decrease) increase in other liabilities	(469)	735	258
Gain on other property owned	(105)	(90)	--
Loss on disposal of premises and equipment	--	1	--
Gain on disposal of assets held for lease	(2)	(4)	(10)
Total adjustments	(1,502)	227	826
Net cash provided by operating activities	12,650	11,545	12,287
Cash flows from investing activities			
Increase in loans, net	(70,944)	(64,560)	(106,673)
Purchases of investment in AgriBank, FCB, net	(60)	(1,123)	(2,376)
Decrease (increase) in investment securities, net	3,992	2,235	(7,674)
Purchases of assets held for lease, net	(97)	(595)	(751)
Proceeds from sales of other property owned, net	144	372	--
Purchases of premises and equipment, net	(219)	(92)	(623)
Net cash used in investing activities	(67,184)	(63,763)	(118,097)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	54,643	52,326	105,958
Capital stock and participation certificates retired, net	(109)	(108)	(148)
Net cash provided by financing activities	54,534	52,218	105,810
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$357	\$402	\$428
Stock applied against loan principal	195	206	216
Interest transferred to loans	284	165	198
Loans transferred to other property owned	29	2,826	246
Financed sales of other property owned	--	2,780	--
Supplemental information			
Interest paid	\$7,323	\$8,898	\$14,476
Taxes paid	1,300	524	203

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of North Dakota, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2010, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and 86 associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2010, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration (FCA) is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

Farm Credit Insurance Fund: The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

Effective July 1, 2008, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding made for nonaccrual loans and impaired investment securities are assessed a surcharge while guaranteed loans and investment securities are deductions

from the premium base. AgriBank, in turn, assesses the associations premiums each year based on these same factors. Prior to July 1, 2008, the premiums were based on annual average loan principal outstanding and AgriBank assessed the associations' annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

Farm Credit Services of North Dakota, ACA and its subsidiaries, Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Benson, Bottineau, Burke, Divide, Eddy, Foster, McHenry, McKenzie, northern McLean, Mountrail, Pierce, Renville, Rolette, northern Sheridan, Ward, Wells and Williams in the state of North Dakota.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer fee appraisals, and through affiliations, farm records, income tax planning and preparation services, and retirement and succession planning services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of Farm Credit Services of North Dakota, ACA (the parent) and Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and

recognized over the life of the loan as an adjustment to net interest income. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior chargeoffs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Loans are classified as restructured when the terms of a distressed loan have been modified in a way that a concession has been granted in order to make it probable that the operations of the distressed borrower will become viable. Formally restructured loans are returned to performing status when the loan has a similar interest rate as that charged for loans of comparable risk and it otherwise meets the criteria of performing loans. Interest income on formally restructured loans is recognized in accordance with the loan's classification as accrual or nonaccrual.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is taken through earnings in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- portfolio quality and concentration, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and

prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

Changes in the allowance for loan losses consist of provision activity, recorded as "Provision for loan losses" on the Consolidated Statements of Income, and chargeoffs and recoveries.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in "Other property owned" on the Consolidated Statements of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income and expenses from operations and carrying value adjustments are included in "Miscellaneous income, net" on the Consolidated Statements of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" on the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The AgriBank Farm Credit District has three post-employment benefit plans.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee's contributions. All employees hired after December 31, 2006, only participate in the defined contribution plan. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the AgriBank Farm Credit District. The plan is comprised of two benefit formulas. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees participated in the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The

anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

Effective January 1, 2010, we adopted FASB guidance on "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information for assets and liabilities measured on a recurring basis and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on our financial condition and results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amended previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also required additional disclosure about transfers of financial assets and a transferor's continued involvement with transferred assets. This guidance was effective as of January 1, 2010, and applied to transfers which occurred on or after the effective date. Adoption of this guidance did not have a material impact on our financial condition and results of operations.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance will have no impact on our financial condition or results of operations, but it will result in additional disclosures.

NOTE 3: LOANS AND INVESTMENT SECURITIES

Loans consisted of the following (in thousands):

As of December 31, 2010	Amount	Percentage
Long-term agricultural mortgage	\$262,911	37.9%
Production	115,476	16.7%
Intermediate-term	152,035	21.9%
Farm-related business	1,438	0.2%
Finance leases	956	0.1%
Participations purchased	160,988	23.2%
Other	101	--
Subtotal	693,905	100.0%
Participations sold	(3,537)	
Total loans	\$690,368	

As of December 31, 2009	Amount	Percentage
Long-term agricultural mortgage	\$238,739	38.3%
Production	104,718	16.8%
Intermediate-term	131,513	21.1%
Farm-related business	1,701	0.3%
Finance leases	1,083	0.2%
Participations purchased	144,848	23.3%
Other	179	--
Subtotal	622,781	100.0%
Participations sold	(3,666)	
Total loans	\$619,115	

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$214,811	38.5%
Production	102,253	18.3%
Intermediate-term	98,657	17.7%
Farm-related business	1,134	0.2%
Finance leases	1,126	0.2%
Participations purchased	139,232	25.0%
Other	293	0.1%
Subtotal	557,506	100.0%
Participations sold	(2,950)	
Total loans	\$554,556	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations.

The following table presents information regarding participations purchased and/or sold (in thousands):

As of December 31, 2010	Participations	
	Purchased	Sold
Participations purchased from/sold to:		
Other Farm Credit System institutions	\$149,613	\$1,094
Non-Farm Credit System institutions	11,375	2,443
Total participations purchased/sold	\$160,988	\$3,537

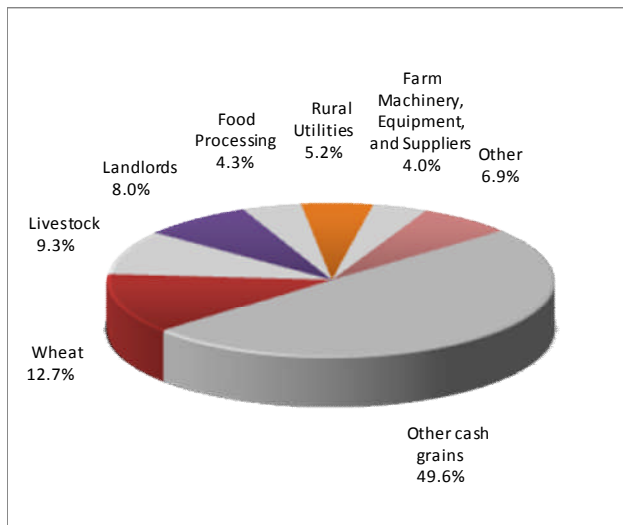
The other participation volume is largely due to participations on loans to agribusinesses.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2010, volume plus commitments to our ten largest borrowers totaled an amount equal to 31.6% of members' equity.

Our agricultural commodity concentrations at December 31, 2010, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in North Dakota. Approximately 30.5% of our total loan portfolio was in the counties of McHenry, McLean, Ward and Wells at December 31, 2010.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands). Accruing volume includes accrued interest receivable.

As of December 31	2010	2009	2008
Nonaccrual loans:			
Current as to principal and interest	\$51	\$190	\$3,990
Past due	583	1,584	743
Total nonaccrual loans	634	1,774	4,733
Accruing restructured loans	695	804	932
Loans past due 90 days or more still accruing	1	38	492
Total risk loans	\$1,330	\$2,616	\$6,157
Volume with specific reserves	\$211	\$226	\$2,742
Volume without specific reserves	1,119	2,390	3,415
Total risk loans	\$1,330	\$2,616	\$6,157
Total specific reserves	\$134	\$69	\$449
For the year ended December 31	2010	2009	2008
Income on accrual risk loans	\$29	\$33	\$60
Income on nonaccrual loans	79	118	127
Total income on risk loans	\$108	\$151	\$187
Average recorded investment	\$1,802	\$4,109	\$3,398

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2010.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in nonaccrual loans from 2009 was primarily due to the payoff of one account.

Investment Securities

We held investment securities of \$1.4 million at December 31, 2010, \$5.4 million at December 31, 2009, and \$7.7 million at December 31, 2008, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio. The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

As of December 31	2010	2009	2008
Amortized cost	\$1,447	\$5,439	\$7,674
Unrealized gains	15	146	86
Unrealized losses	--	(19)	(907)
Fair value	\$1,462	\$5,566	\$6,853
Weighted average yield	5.5%	3.9%	4.2%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$170 thousand in 2010, \$288 thousand in 2009, and \$239 thousand in 2008.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

A summary of the changes in the allowance for loan losses follows (in thousands):

For the year ended December 31	2010	2009	2008
Balance at beginning of year	\$1,227	\$1,433	\$1,216
Provision for loan losses	526	110	290
Loan recoveries	41	14	17
Loan chargeoffs	(149)	(330)	(90)
Balance at end of year	\$1,645	\$1,227	\$1,433

The change in our allowance for losses as compared to the prior year is related to an increase in loan volume and the estimated risk of loss in our portfolio based on our current environment.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2010, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate.

The following summarizes investment balances (in thousands):

As of December 31	2010	2009	2008
Required stock investment	\$13,898	\$13,046	\$11,570
Total investment	\$13,898	\$13,046	\$11,570

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	2010	2009	2008
Land, buildings and improvements	\$3,998	\$3,863	\$3,837
Furniture and equipment	661	622	567
Subtotal	4,659	4,485	4,404
Less: accumulated depreciation	(2,705)	(2,588)	(2,414)
Total	\$1,954	\$1,897	\$1,990

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$725 million and the outstanding principal under the line of credit was \$576.3 million as of December 31, 2010. The interest rate is adjusted monthly and was 1.3% at December 31, 2010. During 2010, our average balance was \$520.5 million with an average interest rate of 1.4%. Our average balance during 2009 was \$483.0 million with an average interest rate of 1.5% and during 2008 our average balance was \$409.5 million with an average interest rate of 3.2%. The maturity date is September 30, 2011, for our note payable, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY**Capitalization Requirements**

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued if not already a stockholder. Also, the purchase of one participation certificate is required of each customer who purchases financial services if not already a stockholder. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made, but usually does not make a cash investment. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association were to be unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2010, our ratio was 16.7%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2010, our ratio was 16.4%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2010, our ratio was 16.4%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2010, December 31, 2009 and December 31, 2008, we no longer had any excess stock. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2010. All shares and participation certificates were \$5.00 par value.

As of December 31, 2010	Shares Outstanding
Class A common stock (protected)	479
Class B common stock (at-risk)	441,750
Class E participation certificates (at-risk)	1,248

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock are at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2010, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of Class A common stock, and
- second, pro rata to holders of Class B, C and D common stock and Class E participation certificates.

In the event of impairment, losses will be absorbed first by holders of Class D common stock, then by concurrent impairment of Class A, B and C common stock and Class E participation certificates; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class A, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

The Farm Credit Administration Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2011. However, we do not have a patronage program to make such distributions.

NOTE 9: INCOME TAXES

Provision for Income Taxes

Our provision for income taxes follows (in thousands):

For the year ended December 31	2010	2009	2008
Current:			
Federal	\$1,162	\$719	(\$19)
State	234	94	4
Total current	<u>1,396</u>	<u>813</u>	<u>(15)</u>
Deferred:			
Federal	(63)	(93)	143
State	(7)	(9)	18
Total deferred	<u>(70)</u>	<u>(102)</u>	<u>161</u>
Provision for income taxes	<u>\$1,326</u>	<u>\$711</u>	<u>\$146</u>
Effective tax rate	<u>8.6%</u>	<u>5.9%</u>	<u>1.3%</u>

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2010	2009	2008
Federal tax at statutory rate	\$5,263	\$4,090	\$3,946
State tax, net	111	60	11
Effect of non-taxable entity	(4,054)	(3,431)	(3,824)
Other	6	(8)	13
Provision for income taxes	<u>\$1,326</u>	<u>\$711</u>	<u>\$146</u>

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2010	2009	2008
Allowance for loan losses	\$234	\$186	\$160
Postretirement benefit accrual	69	64	60
Accrued incentive	173	113	--
Leasing related, net	(558)	(570)	(544)
Accrued patronage income not received	(221)	(114)	(46)
AgriBank, FCB 2002 allocated stock	(263)	(263)	(263)
Accrued pension asset	(134)	(157)	(167)
Depreciation	(45)	(56)	(77)
Other assets	75	57	35
Net deferred tax liabilities	<u>(\$670)</u>	<u>(\$740)</u>	<u>(\$842)</u>
Gross deferred tax assets	<u>\$551</u>	<u>\$420</u>	<u>\$255</u>
Gross deferred tax liabilities	<u>(\$1,221)</u>	<u>(\$1,160)</u>	<u>(\$1,097)</u>

A valuation reserve for the deferred tax assets was not necessary at December 31, 2010, December 31, 2009, or December 31, 2008.

We have not provided deferred income taxes on approximately \$7.5 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$85.1 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

At December 31, 2010, we had no uncertain income tax positions.

NOTE 10: EMPLOYEE BENEFIT PLANS**Pension and Post-Employment Benefit Plans**

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank, FCB and Affiliated Associations 2010 Annual Report.

As disclosed in the AgriBank, FCB and Affiliated Associations 2010 Annual Report, the defined benefit plans reflect an unfunded liability totaling \$276.5 million at December 31, 2010. Our individual association increases our prepaid pension asset when contributions are made and reduces our prepaid pension asset as annual expense is recorded. At December 31, 2010, to reflect the \$276.5 million unfunded liability on the District balance sheet, the District reversed the prepaid pension assets and recorded the unfunded position as a liability with an offsetting charge to accumulated other comprehensive income (AOCI). The \$276.5 million unfunded liability represents potential future contributions that may need to be made by the participating employers. The \$355.8 million recorded in AOCI represents future expense that may need to be recognized by the participating employers. The amount ultimately to be contributed and the amount ultimately recognized as expense and the timing of those contributions and expenses, are subject to many variables including performance of plan assets and levels of interest rates. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements. Based on the District's methodology for allocating expenses and contributions at December 31, 2010, our share of the \$355.8 million potential future expense would be approximately \$5.0 million and our share of the \$276.5 million potential future cash contributions would be \$4.6 million. Please refer to the AgriBank, FCB and Affiliated Associations 2010 Annual Report for detailed disclosures under the FASB guidance on "Compensation – Retirement Benefits".

Pension: Certain employees participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$413 thousand for 2010, \$347 thousand for 2009, and \$384 thousand for 2008. Plan expenses included in "Salaries and employee benefits" expense in the Consolidated Statements of Income were \$558 thousand for 2010, \$410 thousand for 2009, and \$303 thousand for 2008.

Life Insurance and Retiree Medical Plans: District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of the benefit plan. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in "Salaries and employee benefits" expense in the Consolidated Statements of Income were \$39 thousand for 2010, \$41 thousand for 2009, and \$33 thousand for 2008.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions under the plan were \$282 thousand in 2010, \$233 thousand in 2009, and \$193 thousand in 2008.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2010, involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2010	2009	2008
As of December 31:			
Total related party loans and leases	\$6,913	\$6,124	\$8,038
For the year ended December 31:			
Advances to related parties	\$8,029	\$7,889	\$11,301
Repayments by related parties	7,701	8,067	9,216

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, financial services, accounting and reporting services, human resource services, and retail product processing and support services. The total cost of services we purchased from AgriBank was \$504 thousand in 2010, \$488 thousand in 2009, and \$484 thousand in 2008.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2010, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$228.3 million. Additionally, we had \$6.6 million of issued standby letters of credit as of December 31, 2010.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE MEASUREMENTS

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2010, December 31, 2009 or December 31, 2008. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

As of December 31, 2010	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	\$ --	\$ --	\$80	\$80	(\$65)
Other property owned	--	--	--	--	105

As of December 31, 2009	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	\$ --	\$ --	\$165	\$165	\$380
Other property owned	--	--	10	10	90

As of December 31, 2008	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	\$ --	\$20	\$2,273	\$2,293	(\$204)
Other property owned	--	--	256	256	--

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

Investment Securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

As of December 31, 2010	Carrying	
	Amount	Fair Value
Financial assets:		
Loans, net	\$688,723	\$694,978
Investment securities	1,447	1,462
Financial liabilities:		
Note payable to AgriBank, FCB	\$576,288	\$581,150
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$294)

As of December 31, 2009	Carrying	
	Amount	Fair Value
Financial assets:		
Loans, net	\$617,888	\$622,681
Investment securities	5,439	5,566
Financial liabilities:		
Note payable to AgriBank, FCB	\$521,645	\$525,180
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$248)

As of December 31, 2008	Carrying	
	Amount	Fair Value
Financial assets:		
Loans, net	\$553,123	\$562,078
Investment securities	7,674	6,853
Financial liabilities:		
Note payable to AgriBank, FCB	\$469,319	\$477,195
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$237)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2010, December 31, 2009, and December 31, 2008, follow (in thousands):

2010	First	Second	Third	Fourth	Total
Net interest income	\$4,177	\$4,497	\$4,616	\$4,916	\$18,206
Provision for (reversal of)					
loan losses	71	312	221	(78)	526
Patronage income	275	277	296	1,345	2,193
Other expense, net	1,030	931	893	1,541	4,395
Provision for income taxes	299	249	289	489	1,326
Net income	\$3,052	\$3,282	\$3,509	\$4,309	\$14,152

2009	First	Second	Third	Fourth	Total
Net interest income	\$3,486	\$3,746	\$4,100	\$4,366	\$15,698
Provision for (reversal of)					
loan losses	202	(438)	344	2	110
Patronage income	224	232	256	743	1,455
Other expense, net	1,059	757	1,430	1,768	5,014
Provision for income taxes	142	144	204	221	711
Net income	\$2,307	\$3,515	\$2,378	\$3,118	\$11,318

2008	First	Second	Third	Fourth	Total
Net interest income	\$2,787	\$2,711	\$3,006	\$2,966	\$11,470
(Reversal of) provision for					
loan losses	(142)	40	25	367	290
Patronage income	230	267	304	314	1,115
Other expense, net	1,349	903	(1,950)	386	688
Provision for (reversal of)					
income taxes	54	(10)	56	46	146
Net income	\$1,756	\$2,045	\$5,179	\$2,481	\$11,461

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 1, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2010 Consolidated Financial Statements or disclosure in the Notes to those financial statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Services of North Dakota, ACA

(Unaudited)

DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Minot	Owned	Headquarters/Branch
Minot	Owned	Commercial Lot
Carrington	Owned	Branch
Williston	Owned	Branch
Bottineau	Owned	Branch
Rugby	Owned	Branch
Minot	Owned	Ward County Crop Insurance Office
Rugby	Leased	Schaan Crop Insurance Office
Bowbells	Leased	Bowbells Crop Insurance Office

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2010.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 12 of this annual report.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2010, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Rollin Tonneson, Chairperson of the Board, Souris, is a self-employed grain farmer. He was elected to his current term on the Association Board in March 2008 which expires in March 2011.

Daryl Klein, First Vice Chairperson of the Board, Balta, is a self-employed grain farmer. He was elected to his current term on the Association Board in March 2010 which expires in March 2014.

Bryan Ankenbauer, Second Vice Chairperson of the Board, Bowbells, is a self-employed grain farmer. He was elected to his current term on the Association Board in March 2008 which expires in March 2011.

Arlen Gilbertson, Parshall, is a self-employed grain and livestock farmer and operates a farm and ranch bed and breakfast establishment with his wife, Ronna and son, Elmer. He was elected to his current term on the Association Board in March 2008 which expires in March 2011.

Thomas Henry, Westhope, is a self-employed grain farmer. He is also Secretary/Treasurer of Russell Storage Condominium (a grain storage entity) in conjunction with Souris River Co-op. He was elected to his current term on the Association Board in March 2010 which expires in March 2014.

Phil Lowe, Outside Director, Minot, is the president of Lowe's Inc., a garden center, greenhouse nursery, and floral and landscaping operation. He is also on the board for Trinity Health, a hospital and nursing home. He was appointed to his current term on the Association Board in March 2009 which expires in March 2013.

Bill Ongstad, Harvey, is a self-employed grain farmer. He is a director for the Garrison Diversion Conservancy District. He also serves as a director for Precision Ag Results, a precision farming consulting business. He was elected to his current term on the Association Board in April 2009 which expires in March 2013.

Steve Perdue, Ray, is a self-employed grain farmer. He is currently a director for the Ray Farmers Union Elevator, a grain and agronomy business. He was elected to his current term on the Association Board in April 2009 which expires in March 2013.

Clara Sue Price, Outside Director, Minot, is an officer/owner of Cal-Dak Cabinets, Inc., a construction firm. She also serves as a director for MVAW, an employer of persons with disabilities and is on the board for Trinity Health, a hospital and nursing home. She was appointed to her current term on the Association Board in April 2009 which expires in March 2012.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. In 2010, the Board of Directors received \$300 per diem for each meeting in attendance. In addition, the board chairperson receives a \$2,000 annual retainer fee and the other board members receive a \$1,000 annual retainer fee paid following the Board of Directors' annual reorganization meeting. Effective January 1, 2011, the Board of Directors will receive a \$400 per diem for meeting attendance or \$100 for meeting attendance by conference call.

Information regarding compensation for each director who served during 2010 follows:

	Number of Days Served		Compensation paid for service on a board committee	Name of Committee	Total Compensation Paid in 2010
	Board Meetings	Other Official Activities			
Bryan Ankenbauer	10.0	14.0	\$300 300	Audit Planning	\$8,815
Arlen Gilbertson	10.0	15.0	300 300	Board Policy Planning	9,085
Thomas Henry*	8.0	6.0	300 300	Board Policy Planning	5,725
Daryl Klein	11.0	15.0	300 300	Audit Planning	9,550
Jim Limke**	2.0	10.0	--		3,713
Phil Lowe	10.0	14.0	300 300	Audit Planning	8,320
Bill Ongstad	11.0	19.0	300 300	Board Policy Planning	11,005
Steve Perdue	11.0	14.0	300 300	Board Policy Planning	9,340
Clara Sue Price	10.0	13.0	300 300	Audit Planning	8,065
Rollin Tonneson	10.0	22.0	300 300	Audit Planning	12,260
Total	93.0	142.0	\$5,400		\$85,878

*New director in 2010 elected at annual meeting in March 2010.

**Term expired in 2010.

SENIOR OFFICERS

The senior officers (and the date each began his/her term of service as a senior officer) include:

Claude Sem, President and Chief Executive Officer (January 2000)
 Becky Braaten, Vice President, Insurance Services (March 2000)
 Dave Brossart, Assistant Vice President, Credit (March 2000)
 Kent Huss, Chief Financial Officer (March 1997)
 Wade Iverson, Chief Appraiser/Facilities Manager (March 2000)
 Ross Johnson, Vice President Agribusiness Finance (June 2003)
 Paul Klingbeil, Chief Information Officer (December 2006)
 John Stevenson, Vice President, Credit (January 1999)
 Leigh Wagner, Vice President, Marketing (March 2000)

All of the senior officers have been with Farm Credit Services of North Dakota, ACA for the past five years.

A summary of compensation earned by senior officers/highly compensated individuals follows (in thousands):

	Year	Salary	Deferred/			Total
			Bonus	Perquisites	Other	
CEO						
Claude Sem	2010	\$213	\$80	\$1	\$ --	\$294
Claude Sem	2009	200	63	1	--	264
Claude Sem	2008	187	64	1	--	252
Aggregate Number of Individuals (does not include CEO compensation)						
Nine	2010	\$803	\$252	\$6	\$ --	\$1,061
Ten	2009	856	297	6	--	1,159
Ten	2008	798	339	4	--	1,141

Members may request information on the compensation paid during 2010 to the individuals included in the preceding table.

CEO incentive pay is paid annually based on performance criteria established by the Board of Directors. Other senior officer incentive pay is

paid annually based on performance criteria established by the CEO. The criteria include loan volume, related services, various financial and credit ratios, credit quality, personal objectives and performance ratings. Incentives are calculated after the end of the plan year (the plan year is the calendar year) and are paid within 90 days of year end.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 11 of this annual report.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at Post Office Box 70, Minot, North Dakota 58702-0070, (701) 852-1265 or via electronic mail to info@farmcreditnd.com or through our website at www.farmcreditnd.com.

The total directors' travel, subsistence and other related expenses were \$79 thousand in 2010, \$67 thousand in 2009, and \$66 thousand in 2008.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2011 or at any time during 2010.

MEMBER PRIVACY

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2010 were \$21.1 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report of Audit Committee", "Report of Independent Auditors", "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

EQUAL EMPLOYMENT OPPORTUNITY

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

Farm Credit Services of North Dakota, ACA

Funds Held Policy

Objective:

To allow members the opportunity to deposit funds in excess of regular loan payments in a funds held account.

Maximum Deposit Balance:

Mortgage Loans: The funds held balance may not exceed the unpaid principal balance of the outstanding balance on the related loan.

Commercial Loans: The funds held balance may not exceed the amount of the borrower's outstanding loan commitments. The outstanding commitments must be based upon historic or reasonably projected borrowing needs for the entity during the current operating cycle.

Loans with Prepayment Penalties (Mortgage or Commercial):

On loans with prepayment penalties, the maximum allowed funds held on that particular loan is limited to 10% of the original commitment or the limits for mortgage and commercial loans as set forth above, whichever is the lesser amount.

Interest Rate:

The funds held interest rate will be a fixed rate priced at 50 basis points below the Association average MCD and adjusted monthly. The rate paid will not exceed the rate charged on the related loan at any time.

Deposits:

Deposits may be made at any time. Money received after the billing of a scheduled payment (generally 30 days), but prior to a payment due date will be applied directly to the billed payment and will not earn interest. In all other cases, money deposited into funds held will earn interest from the day deposited until the day withdrawn.

Withdrawals:

Money in a funds held account may be available to be returned to borrowers, upon request, for an eligible loan purpose in lieu of increasing the borrower's loan. Twelve withdrawals per year are allowed per borrower/entity from the funds held account. The minimum withdrawal amount is \$500.00. Management has the authority to apply limitations to withdrawals or decline withdrawal requests if it adversely affects the credit.

Rate Changes:

Regulations do not require disclosure when funds held rates change. Customers will be notified of funds held rate changes via the statement of account.

Uninsured Account:

Funds held is not a depository account and is not insured by an agency of the federal government. In the event of Association liquidation, customers having balances in funds held shall be notified according to regulations.